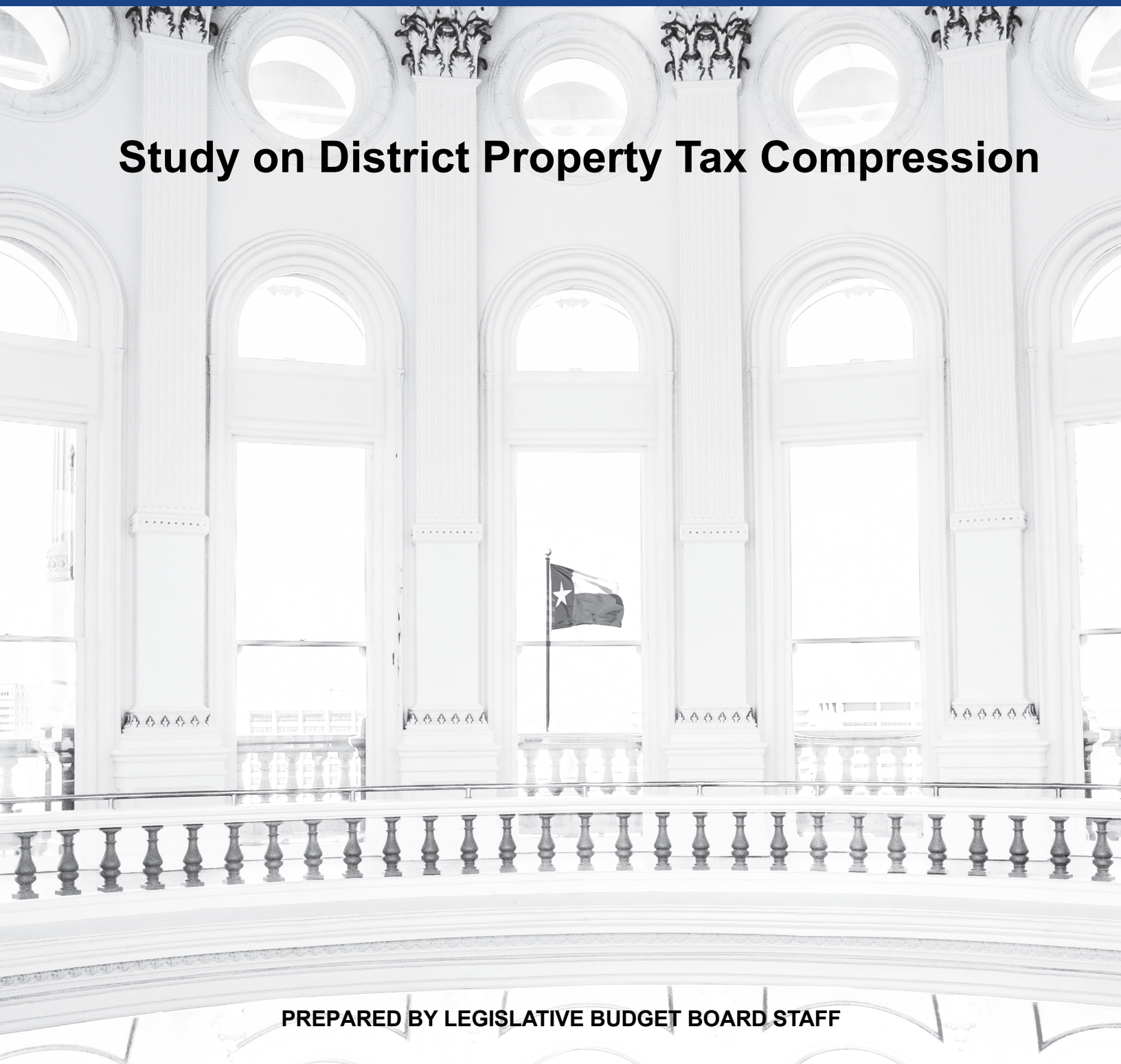
LEGISLATIVE BUDGET BOARD

Study on District Property Tax Compression



PREPARED BY LEGISLATIVE BUDGET BOARD STAFF

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TO: Governor Greg Abbott
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Speaker Dennis Bonnen

FROM: Jerry McGinty

DATE: September 9, 2020

SUBJECT: Study on District Property Tax Compression

The Texas Education Code, Section 48.2554, added by House Bill 3, Eighty-sixth Legislature, 2019, requires the Legislative Budget Board (LBB) to study possible methods of providing property tax relief through the reduction of school district maintenance and operation (M&O) taxes and report the results to the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives. During the past year, the LBB staff has consulted with appropriate state agencies and stakeholder groups to solicit input on methods of providing school property tax relief and potential sources of revenue that may be used to reduce school district M&O taxes. During this time, the LBB staff also has studied prior tax reform efforts in Texas and other states. This memo will summarize these discussions, inputs, and studies to help inform discussion about potential tax reform in Texas.

This memo is organized into five sections. First, an overview of the current Texas state revenue system and comparison to the other 49 states' systems are provided. Next, four considerations for evaluating sources of revenue are discussed. The third section groups a list of potential sources of revenue that may be used to reduce school district M&O taxes into four categories and provides various information for each potential source depending on the category. The final two sections focus on property taxes and contain an overview of the current school district M&O property tax system and a history of some recent legislative efforts to reduce those taxes. Finally, the memo contains an attachment that includes several figures that are referenced throughout the memo.

Overview of Current Texas Revenue System

Figure 1 of the Attachment shows the distribution of Texas tax collections during fiscal year 2019 by Comptroller of Public Accounts (CPA) category, which primarily is composed of consumption taxes. Almost two-thirds of total state tax collections come from the two largest

categories, Sales Taxes and Motor Vehicle Sales and Rental Taxes. The Sales Tax category includes the Limited Sales and Use Tax levied at a rate of 6.25 percent of the price for the sale or rental of tangible personal property and certain taxable services, subject to certain exemptions. This category also includes the Boat and Boat Motor sales tax imposed at a rate of 6.25 percent of every retail sale of a taxable boat or boat motor in the state. The second-largest category of tax collections includes the Motor Vehicle Sales tax, which is levied at a rate of 6.25 percent on the price of a vehicle, less the value of any trade-in. The Motor Vehicle Rental tax rate is 10.0 percent for rentals of 30 days or fewer, and 6.25 percent for rentals exceeding 30 days. Also included in Motor Vehicle Sales and Rental taxes is the Manufactured Housing Sales and Use tax levied at a rate of 5.0 percent of 65.0 percent of the selling price of a new manufactured home.

Taxes on producing hydrocarbons and purchasing certain refined hydrocarbon products collectively account for approximately 15.0 percent of state tax collections. Oil Production and Natural Gas Production taxes colloquially are referred to as severance taxes, as they are levied when a producer extracts or severs hydrocarbons from a below-ground well. Texas imposes the Oil Production tax at 4.6 percent of the market value of oil produced in the state and the Natural Gas Production tax at 7.5 percent of the market value of natural gas and natural gas liquids produced in the state and 4.6 percent of the market value of condensate recovered from natural gas, less certain deductions. Motor Fuel Taxes represent the fifth-largest category of state taxes and include taxes on three types of motor fuel: gasoline, diesel, and liquefied and compressed natural gas. Gasoline and diesel fuel are taxed $0.20 per gallon; liquefied and compressed natural gas is taxed at a rate of $0.15 per gasoline or diesel gallon equivalent.

The fourth-largest category of state tax revenue, contributing 7.0 percent of the total, is paid by businesses. The Franchise Tax is imposed on entities conducting business in Texas, with exceptions for sole proprietorships, general partnerships directly owned only by individuals and their estates, and passive entities. Taxpayers elect a taxable margin calculation from four methods: (1) 70.0 percent of total revenue; (2) total revenue minus costs of goods sold; (3) total revenue minus total compensation and benefits; or (4) total revenue minus $1.0 million. Most entities pay at a rate of 0.75 percent of their taxable margins apportioned to the state, except for taxable entities engaged primarily in retail or wholesale trade, which pay a lower tax rate of 0.375. Finally, an alternative calculation, which CPA refers to as EZ Computation, exists for entities with total revenue of less than $20.0 million.

Approximately 5.0 percent of state taxes are composed of what are commonly referred to as "sin" taxes; excise taxes on the consumption of various forms of alcohol and tobacco products. The Alcoholic Beverage Taxes category primarily consists of the Mixed Beverage Sales tax and the Mixed Beverage Gross Receipts tax, levied at 8.25 percent of the sales price of each mixed alcoholic beverage sold on the premises of various locations and 6.7 percent of the gross receipts of various permittees received from the sale of mixed alcoholic beverages, respectively. This category also includes a $6 per 31.0-gallon barrel tax on beer, $2.40 per gallon tax on liquor, $0.198 per gallon tax on malt liquor and ale[1], and a tax on wine with a rate ranging from $0.204 per gallon to $0.516 per gallon. The Cigarette and Tobacco Taxes category includes the Cigarette tax, which is levied at $70.50 per 1,000 cigarettes weighing 3.0 pounds or less per 1,000 or

[1] Malt liquor and ale will be taxed at the same rate as beer beginning in fiscal year 2022.

$72.60 per 1,000 cigarettes weighing more than 3.0 pounds per 1,000. The Cigar and Tobacco Products tax is levied on cigars, snuff, chewing tobacco, and smoking tobacco at varying rates based on the weight and type of product.

The Insurance Taxes category composes 4.0 percent of Texas state taxes. This category includes insurance premium taxes and insurance maintenance taxes. Insurance-related entities must remit a percentage of their gross premiums that varies with the line of insurance. Insurers pay 1.75 percent of accident, health, and life insurance gross premiums; 1.6 percent of property and casualty insurance gross premiums; 1.35 percent of title insurance premiums; and 4.85 percent of independently procured insurance premiums. Insurance maintenance taxes also are based on gross premiums for specific lines of insurance, with rates set annually by the Texas Department of Insurance.

The Hotel Occupancy Tax, representing 1.0 percent of state taxes, is imposed on an individual who pays for the use or possession of a room or space in a hotel at a rate of 6.0 percent of the price paid for a room. The Utility Taxes category also accounts for 1.0 percent of state taxes, and it consists of three taxes. The Public Utilities Gross Assessment is levied at one-sixth of 1.0 percent of a public utility's gross receipts. The Gas, Electric, and Water Utility tax is imposed on the gross receipts of a utility company at a rate that depends on the size of the city it serves. If the city's population is less than 2,500, the rate is 0.581 percent; if the population ranges from 2,500 to 10,000, the rate increases to 1.070 percent; and if the city's population exceeds 10,000, the rate is 1.997 percent. The final tax in this category is the Gas Utility Pipeline tax imposed on the gross income of a natural gas utility company at a rate of 0.5 percent.

The remaining Other Taxes category includes several small taxes that collectively represent less than 1.0 percent of state tax collections. The category includes: the Cement Production tax, levied at $0.0275 per 100.0 pounds of cement manufactured within or imported into the state; the Combative Sports Admission tax, imposed at 3.0 percent of the gross receipts from ticket sales to combative sporting events plus the lesser of 3.0 percent of the gross receipts from the sale of broadcast rights or $30,000; and the Coin-Operated Amusement Machine tax, which equals $60 per year for each coin-operated amusement machine in the state. The largest tax in this category is the Oil Well Service tax, levied at 2.42 percent of the gross receipts from providing oil well services, less the value of certain materials used, consumed, or expended in or incorporated into the well. The final tax in this category is the Unemployment Assessment tax, which employers pay at a percentage of employee wages. The rate varies by the type of employer, the amount of unemployment benefits paid during previous years, and the balance of the Texas Unemployment Compensation Trust Fund.

Figure 2 of the Attachment shows the total amount of state tax collections from **Figure 1** combined with other non-tax CPA categories of state revenue to show the distribution of All Funds state revenue for fiscal year 2019. Tax collections contribute almost half of the total, and the next largest category is Federal Income. Federal Income is composed primarily of reimbursements from the federal government for programs that have a joint federal–state funding structure, wherein the amounts are mostly determined formulaically. For example, the largest sources of revenue in this category include the federal match for the Medicaid program, the federal match for various transportation programs, and federal funding for education programs.

State Health Service Fees and Rebates make up approximately 5.0 percent of total state revenue and come primarily from three sources. The largest source in this category includes revenue related to the state's Section 1115 Medicaid demonstration waiver. The waiver provides Medicaid funding for several programs such as the Delivery System Reform Incentive Payment and Uncompensated Care programs. Another large source of revenue from this category is the Vendor Drug Rebate program through which pharmaceutical manufacturers provide rebates to the state in return for state Medicaid programs covering their drugs. Finally, this category includes payments from the Medicaid Disproportionate Share hospital program, which are intended to offset hospitals' uncompensated care costs to improve access for Medicaid and uninsured patients and the financial stability of safety-net hospitals.

The Licenses, Fees, Fines, and Penalties category also includes approximately 5.0 percent of total state revenue and relates to charges for various privileges granted, or for payments required after violations of certain laws and regulations. This category contains the largest number of revenue sources, totaling more than 400 sources. The largest source of revenue in the category, Motor Vehicle Registration fees, makes up almost one-quarter of the total, and the next largest source contributes 3.0 percent of the total. Several other large sources from this category include varied fees for Driver Licenses, Certificates of Title, City Sales Tax Service, Game/Fish/Equipment, and General Business Filing.

The Other Revenue category, representing 3.0 percent of the total, includes various revenue sources that do not fit into any other category. Approximately two-thirds of the category total comes from one source, Recapture Receipts, which are payments that school districts make to the state when their property wealth per student exceeds a statutory maximum. Other notable sources in this category include Unclaimed Lottery Prizes, Earned Federal Funds, Medical Assistance Cost Recovery, and Medicare Reimbursements.

Three revenue categories each make up approximately 2.0 percent of total state revenue. The Net Lottery Proceeds category contains all net revenue related to the state lottery. The Interest and Investment Income category contains various earnings related to the investment of state funds. Most of the revenue from this category is related to the state's largest two endowment funds, the Permanent School Fund (PSF), which supports public education, and the Permanent University Fund (PUF), which supports certain institutions of higher education in the state. Finally, the Land Income category includes all revenue related to state-owned land. Similar to investment earnings in the Interest and Investment Income category, the majority of the Land Income category comes from land owned by the PSF and the PUF, primarily from leasing land for the production of oil and natural gas.

The final 1.0 percent of state revenue comes from various types of unclaimed property whose ownership transfers to the state after a certain time period (Escheated Estates), various sales such as room and board to employees and guests of the state hospitals and special schools, the sale of handcrafted merchandise and processed products, sales from cafeterias operated by and for a specific state agency (Sales of Goods and Services), and funds received from a legal settlement or court decision holding in favor of the state (Settlement of Claims).

Figure 3 in the Attachment shows the distribution of taxes by type for all 50 states during state fiscal year 2019 based on data from the U.S. Census Bureau's Annual Survey of State Tax Collections. The categories for the census survey are broader then the CPA categories previously discussed and may involve some overlap. For example, the Census Sales Tax category includes Gross Receipts taxes and therefore would include the CPA Sales Tax and Franchise Tax categories. Additionally, the U.S. Census Bureau counts certain receipts related to licenses and fees as taxes, and the CPA does not. Conversely, the U.S. Census Bureau does not include unemployment compensation taxes, some of which are included in the CPA totals. Therefore, the total amount of tax revenue for Texas in the census survey differs from the CPA amounts shown in **Figure 1.**

During state fiscal year 2019, the 50 states on average collected the following percentages of their total tax revenues: 46.3 percent from Sales Tax, including general and selective; 43.2 percent from Income Tax, including individual and corporate; 5.4 percent from License Taxes; 3.1 percent from Other Taxes; and 1.9 percent from Property Taxes. Texas is one of four states including Nevada, Washington, and Wyoming that levies no individual or corporate state income tax and also one of 14 states that does not impose a state-level property tax. General and Selective Sales Taxes in Texas account for 85.1 percent of total taxes, almost double the national average and the highest percentage of the total amount of all 50 states. Other Taxes in Texas compose 9.1 percent of the total, which is the sixth-highest proportion in the U.S. and triple the national average. Severance taxes are included in the Other Taxes category, and most of the states that rely relatively heavily on this category have large oil and natural gas extraction industries. Finally, at 5.8 percent, Texas is fairly close to the national average for License Taxes as a percentage of total taxes.

Figure 4 in the Attachment shows the 50 states ranked by the degree to which the distribution of their state tax systems varies from the national average. The metric computed is the weighted average difference in each state revenue source's percentage of its total from the national average. **Figure 4** shows that most states' tax systems are relatively uniform, with almost three-quarters of states averaging less than a 10.0 percent difference from the national average. The one-quarter of states with higher variation from the U.S. level as a whole tend to either rely heavily on natural resource taxes or lack one of the major state tax sources used by most states. Texas has the fifth-highest level of variation from the national average.

Considerations for Evaluating State Revenue Changes

House Bill 3 requires the LBB to evaluate potential sources of revenue that may be used to reduce school district M&O taxes. After reviewing extensive literature on the theory of state-level revenue sources and numerous prior studies[2] of state tax reform, four considerations for evaluating and comparing sources of state revenue emerged as the most common and important. Although other factors merit consideration, the following considerations were, to varying degrees, the primary focus of most past studies on state revenue theory and reform. Note that none of these considerations are intended to be presented as more important than another. Policy

[2] For past studies from Texas, see *Rethinking Texas Taxes* by Select Committee on Tax Equity (1989); *Final Report* by Citizens Committee on Property Tax Relief (1996); *Interim Report* by Joint Select Committee on Public School Finance (2004); and *Tax Fairness: Property Tax Relief for Texans* by Texas Tax Reform Commission (2006).

decisions are the discretion of the Legislature, each member of which will weigh the considerations differently, and they are presented, therefore, in no particular order. Due to the near limitless number of potential revenue sources, the LBB staff has not performed quantitative evaluation of the four considerations for individual potential sources of revenue. However, for each consideration, LBB staff can provide analysis for any of the potential revenue sources upon your office's request.

- **Administrative Costs:** One consideration for evaluating potential sources of revenue for reducing school district property taxes is the cost of collecting the revenue, often referred to as the administrative cost. As the cost of administration and compliance increases, the revenue that would be available for school property tax reductions decreases. These costs can include items such as computer programming and information technology (IT) system support cost, and cost for new employees (full-time-equivalent positions) to handle functions including reporting, taxpayer assistance, remittance, collections, auditing, and enforcement associated with the potential source. When evaluating potential sources, the administrative cost estimates from the CPA or other state agency charged with administering the revenue source should be compared. Potential sources with lower administrative costs are preferable, all other considerations being equal.

  Figure 5 of the Attachment shows examples of administrative cost estimates from several past revenue proposals, some of which became law. Each proposal shown is assigned to one of four categories.[3] Note that typically no administrative costs are associated with the first two categories (dedicate existing revenue and tax rate increase); however, the third and fourth categories (tax base expansion) and enact a new revenue source) have costs that vary by proposal. Certain types of revenue sources are more complex to administer, resulting in the higher costs that may include additional staffing for audit, taxpayer services, and tax policy due to an increase in the number of audits, calls from new taxpayers, private letter ruling requests, and drafting new rules, publications, and websites. Also, significant increases in existing tax rates could incentivize elevated levels of tax avoidance and result in administrative costs related to need for additional enforcement and compliance staff. **Figure 5** also shows the proposals' onetime costs, which typically are associated with computer programming or IT costs, and the recurring costs, which typically are associated with the costs of the increased full-time-equivalent count. Finally, for each proposal, the estimated administrative costs are shown as a percentage of the expected revenue generated by the proposal.

  Upon request, the LBB staff can collaborate with the CPA and other relevant state agencies to estimate administrative costs associated with any proposed sources of revenue your office would like to evaluate. These costs could vary substantially depending on the proposed scope of and bill language implementing the proposed source of revenue.

- **Revenue Volatility:** The degree to which the growth rate of a state revenue source changes, often referred to as the volatility of the revenue, is also an important

[3] These categories will be discussed later in the memo.

consideration for evaluation. Revenue volatility correlates directly to the difficulty of forecasting the revenue source, which has important implications for the Texas state budget drafting process. Near the beginning of this process, the CPA is constitutionally required to forecast all state revenue collections for the next 32 months, and appropriations made by the Legislature must be less than that predicted available revenue. Greater revenue volatility can lead potentially to greater forecast error and the need for difficult adjustments to appropriations late in the budget cycle. In addition, revenue sources with higher volatility will experience greater decreases when the state economy enters a recession, which can put larger demands on the state budget. Therefore, all else equal, revenue sources with less volatility are preferable.

Figure 6 shows the expected growth rates and volatility of current Texas state revenue categories, school district property taxes, and Texas nominal Gross State Product (GSP) during the last two decades. Volatility is measured as the standard deviation of annual growth rates from fiscal years 2000 to 2019. The standard deviation can be interpreted as how much individual fiscal year growth rates are expected to differ from the 20-year average growth rate during any given year. Also shown in **Figure 6** is each revenue source's expected growth rate for a fiscal year, measured as the compound average annual growth rate during the same period.

Due to the nature of their tax base, the two severance taxes are by far the most volatile revenue source in Texas. Overall, all of the revenue sources are more volatile than GSP, a proxy for the overall state economy, with the exception of the three revenue sources that have an excise tax structure. Also, note that eight of the revenue sources in the table have expected growth rates lower than that of the state economy, and five sources have higher expected growth rates. Upon request, the LBB staff can collaborate with the CPA to estimate volatility and expected growth rates for any potential sources of revenue your office wishes to evaluate.

Finally, changes in revenue are structured for one of three outcomes: a net revenue cut, a net revenue increase, or a revenue-neutral change. Because of varying levels of average growth rates and volatility, careful consideration should be given to years after the biennium for which changes are proposed, sometimes referred to as out years. Legislation typically can be structured such that any of the three outcomes can be achieved for the upcoming biennium, (i.e., an LBB fiscal note with negative, positive, or no impact appearing in the top box). However, depending on the average growth rate and volatility of the state revenue source, this relationship could change. For example, a proposed revenue-neutral increase in state revenue and decrease in school property taxes could result in a net tax increase subsequently, if the source of increased state revenue grew at a higher average rate than the school property taxes being reduced. Alternatively, if the increased state revenue source was much more volatile than the school property tax, the proposed revenue-neutral change could result in a net tax increase during some years and a net tax decrease during other years.

- **Revenue Efficiency:** The next consideration for comparing sources of revenue is the efficiency of the method for raising government revenue. Raising government revenue

through taxation or other methods can introduce economic distortions and inefficiencies as taxpayers adjust behaviors and decisions to minimize their tax burden. For example, taxes add cost that can shift consumer preferences, divert resources in manufacturing, and relocate labor and capital resources. Increased taxes will result in an overall decrease of whatever tax base is being taxed. For example, increasing the sales tax rate will lead to a decrease in purchases of taxable goods and services. Measuring the efficiency of a revenue source involves estimating this decrease, which is referred to as the excess burden or deadweight loss of the revenue. All other considerations being equal, when comparing two revenue sources, the one with a smaller excess burden is considered more efficient and would be preferable.

Considering revenue efficiency was the policy goal of House Bill 464, Eighty-first Legislature, Regular Session, 2009, which requires LBB staff to complete a Dynamic Fiscal Impact Statement on proposed bills or resolutions that would increase or decrease estimated state revenue by more than $75.0 million. One of the most common methods to measure excess burden, which is used by LBB staff, involves projecting the change in several economic variables such as state GSP, employment levels, and personal income that are expected from the proposed increase or decrease in revenue. For these projections, LBB staff uses an economic modeling software package named Tax-PI produced by Regional Economic Models Inc., an economic consulting firm used by many state and local governments. Upon your request, the LBB staff can use Tax-PI to compare the efficiency of any revenue options listed in the Attachment your office may be interested in evaluating.

Figure 7 in the Attachment shows a hypothetical example ranking the efficiency of current law state taxes in Texas using Tax-PI. A separate simulation was conducted for each of the listed taxes where the specific tax was increased to the level necessary to exactly offset $0.01 of statewide school district M&O tax rate compression. The corresponding values shown in **Figure 7** represent the Tax-PI forecast for the decrease in Texas GSP resulting from the tax increase. Finally, the taxes are ranked from the smallest GSP decrease (the most efficient) to the largest GSP decrease (the least efficient).

- **Revenue Equity:** The final consideration for evaluation involves examining the distribution of a revenue source paid across different types of taxpayers, often referred to as equity or incidence analysis. This consideration is important because different methods of raising state revenue can affect different types of businesses or classes of individual consumers disproportionately. Incidence analysis commonly includes two steps. The first step, referred to as initial incidence, determines what percentage of the revenue source actually is remitted by different business sectors and by individual consumers. The second step, or estimates of what is referred to as the final incidence, recognizes that, because businesses ultimately are owned by individual consumers, all of the projected revenue remitted by businesses in the initial estimate eventually will be borne by consumers, either through higher consumer prices, lower employee wages, lower business investment, lower business profits, or some combination thereof.

Although incidence analysis provides several estimation results, three are especially important to evaluate when comparing sources of revenue. First, all else equal, a revenue source with initial incidence balanced between business sectors and consumers is preferable. If the initial incidence is borne more heavily by the business sector or an individual industry within the business sector, Texas could become a relatively unattractive state for the location of businesses or certain business industries. On the other hand, if the initial incidence is borne heavily by consumers, migration of consumers to Texas could decrease. Next, the final incidence of a revenue source borne by out-of-state residents, or exported, should be examined. Revenue sources with a higher percentage ultimately paid by non-Texas residents would be preferable to those with a lower percentage. Finally, estimates of effective rates, or the amount of state revenue paid by an individual as a percentage of personal income, should be compared because all state revenue collections will alter the distribution of after-tax income. Revenue sources are considered regressive if the effective rate decreases as income increases and are considered progressive if the effective rate increases as income increases. A good tool for this evaluation is the Suits Index, a measure that uses estimates of effective rates to measure the relative regressivity or progressivity of a revenue source. The index value ranges from -1.0 to +1.0: -1.0 represents a perfectly regressive revenue source wherein all revenue is paid by the lowest-income individual; +1.0 represents a perfectly progressive revenue source, wherein all revenue is paid by the highest-income individual; and 0.0 represents a perfectly proportional revenue source, wherein the percentage of revenue paid is exactly equal to the percentage of income received by an individual).

House Rule 4, Section 34 (b) (5), and Senate Rule 7.09 (g) require the LBB to prepare a tax equity note for all bills or joint resolutions that result in or impact a state tax or fee, which is an incidence analysis of the bill or joint resolution. The LBB staff maintains a Combined Tax Burden (CTB) model, originally developed for this agency by the consulting firm KPMG, to perform such analysis. The model estimates changes in the distribution of taxes or fees paid by business types versus consumers, across household income quintile, and residents versus nonresidents, subject to several assumptions on various economic parameters in the model. In addition to tax equity notes, the LBB staff uses the model to assist the CPA with estimates for the report on the incidence of certain state taxes required by the Texas Government Code, Section 403.0141. Results from this analysis are also important to consider in the context of revenue-neutral tax proposals. Although the proposal may be revenue-neutral for the state, it likely will result in some specific groups of taxpayers paying more and others paying less. Incidence analysis can be used to examine how the proposal affects these different groups.

Figure 8 of the Attachment shows the CTB estimates of the initial incidence paid by individual consumers, the percentage of tax borne by out-of-state residents, and the Suits Index for each of the state tax categories, school district property taxes, and the overall state tax plus property tax system, under current law. Upon request by your office, the LBB staff can use the CTB to provide incidence analysis estimates for any potential sources of state revenue proposed.

Options for Sources of State Revenue

LBB staff have organized potential sources of revenue that may be used to reduce school district M&O taxes into four categories. The LBB staff does not recommend any potential source over another. Rather, LBB staff believes it is important for elected policy makers to evaluate any revenue source using each of the four considerations previously discussed. When comparing any two sources, one source may compare more favorably than the other source in one or more of the metrics but less favorably in the others. For example, one potential source of revenue could have lower administrative costs and be more efficient than another source, but be less equitable and grow at a more volatile rate during a period. Therefore, it is critical that lawmakers contextualize these tradeoffs and deliberate the order and magnitude of relevance for each of the four considerations when evaluating any potential legislation. Additionally, these potential sources are not intended to be an exhaustive list; instead, they should be viewed as examples of potential methods to reduce school district property taxes.

Each potential revenue source is assigned a tier, based on the amount of school district M&O tax rate compression[4] that the source could provide in a revenue-neutral fashion, as follows: Tier I is greater than $0.05 of rate compression; Tier II is from $0.01 to $0.05 of rate compression; and Tier III is less than $0.01 of rate compression. The LBB staff estimates $0.01 of school district M&O rate compression would cost approximately $520.0 million for the 2022–23 biennium. It is important to note that sources could be assigned into two or three tiers depending on the intent of the Legislature and the text of actual proposed legislation. The tiers also could differ if legislation intended for the revenue change to be a net decrease or increase, rather than revenue-neutral. Therefore, in the absence of specific bill or resolution text, LBB staff have used legislation from recent Legislatures to make a specific assumption for each of the four categories used to estimate the tier level for each source. Different assumptions could result in sources being assigned into a lower or higher tier.

- **Dedicate Existing Revenue Sources:** This category includes options involving the dedication of existing nondedicated state revenue to school district property tax reductions. Numerous dedications of state revenue currently exist; during fiscal year 2019, approximately 61.4 percent of All Funds state revenue was obligated based on statutory, constitutional, or programmatic rule requirements. In addition, several revenue sources including Motor Vehicle Sales tax, Franchise tax, Cigarette tax, and Cigar and Tobacco Products tax already have a portion of their collections dedicated to the reduction of school property taxes.

  The most recent large dedication of existing state revenue was Senate Joint Resolution 5, Eighty-fourth Legislature, 2015, which dedicated up to $2.5 billion of Sales tax collections in excess of $28.0 billion and 35.0 percent of Motor Vehicle Sales and Rental tax collections in excess of $5.0 billion each fiscal year to the State Highway Fund (SHF). The Senate Joint Resolution 5 fiscal note estimated that approximately 7.0 percent of total Sales and Motor Vehicle Sales and Rental taxes would be dedicated to the SHF during the first year of full enactment. Although any amount could be dedicated, LBB

[4] Rate compression is used here as an example. Tiers will differ with different methods of school district property tax relief discussed subsequently.

staff have chosen 7.0 percent as the assumed amount of dedication for the purposes of classifying these sources of revenue into the tiers.

Figure 9 of the Attachment shows several potential options for dedicating existing revenue to reducing school property taxes. In addition, **Figure 9** shows existing current law dedications of each revenue category, the amount of revenue currently dedicated during fiscal year 2019, and the potential tier of school property tax reduction for each revenue source, assuming 7.0 percent of the nondedicated revenue would be dedicated to reducing school property taxes. The final potential source shown would dedicate annual growth of all revenue greater than a certain level, which could be an economic indicator, a percentage, or a fixed amount. This option does not use the 7.0 percent assumption; instead, the tier estimate is based on dedicating all nondedicated revenue growth in excess of compounded inflation and state population growth to school property tax relief.

Finally, it should be noted for this category only, the four considerations for evaluation discussed previously are not applicable. Dedicating state revenue already collected to a specific purpose would have no administrative costs and would not change the overall volatility, efficiency, or equity of the state revenue system. The tradeoff to consider for these options is a budgetary evaluation. Any dedication of existing nondedicated revenue to reducing school district property taxes would lessen by an equal amount the funding for alternative purposes. Therefore, when evaluating options in this category, consideration should be given to what appropriations should be reduced because of the dedication.

- **Increase Rates of Existing Revenue Sources:** The second category of potential sources of state revenue that could be used to reduce property taxes involve increasing the rates of existing revenue sources. The current-law Texas state tax system contains approximately 50 different rates that could be adjusted to raise various amounts of revenue to offset school district property tax reductions, depending on the intent of the Legislature. A recent proposal to increase the Sales tax rate from 6.25 percent to 7.25 percent and use the revenue to compress school district property tax rates was made in House Joint Resolution 3, Eighty-sixth Legislature, 2019. The legislation proposed a 16.0 percent increase in the tax rate, so the LBB staff has used a 16.0 percent rate increase assumption for the purpose of grouping potential sources of revenue in this category into tiers of school district property tax relief.

  Figure 10 of the Attachment shows potential sources of revenue in this category. Along with the current law rates, **Figure 10** shows the last time the rate was adjusted by the Legislature. The type of tax rate also is identified. Current tax rate collections for each source during fiscal year 2019 are shown, along with the potential source's estimated tier of school district property tax reduction. It should be noted that, in addition to taxes, Texas levies several hundred licenses, fees, fines, and penalties that also could be adjusted but are not shown in **Figure 10**. These sources of revenue primarily are dedicated for a specific purpose or are too small to result in a significant reduction of school district property taxes; however, evaluation of increasing any licenses, fees, fines, or penalties also is available upon request.

An important distinction for potential sources in this category is the type of tax rate levied, which are known as either Unit or Ad Valorem. Unit tax rates are based only on volume and typically are denominated in terms of money per physical unit produced or sold. On the other hand, ad valorem tax rates, Latin for "according to value", are based on the value of a transaction and typically are quoted as a percentage of the value of whatever is being taxed. Both types of tax rates offer some degree of adjustment for population changes across a period; taxes typically increase as a state's population increases, leading to more units of the taxed transaction occurring, and vice versa. However, Unit tax rates, unlike Ad Valorem rates, do not offer a direct adjustment for inflation, which will lead to a decrease of the per-unit value of the tax during periods of increasing inflation. For example, the Gasoline tax of $0.20 per gallon currently is worth $0.104 per gallon in fiscal year 1991[5] inflation-adjusted prices. Therefore, increases in Unit tax rates that are not adjusted periodically for inflation could lead to less reduction in school property taxes subsequently.

Finally, it is important to understand the elasticity of a revenue source with respect to the source's tax rate. In theory, every 1.0 percent increase in the tax rate potentially will yield less revenue than the previous 1.0 percent increase. For example, a 10.0 percent increase in a tax rate would be forecast to yield less than double the amount of forecasted revenue attributable to a 5.0 percent increase in the same rate. Furthermore, the rate of decrease in forecasted revenue for each additional 1.0 percent increase in the rate is non-linear. This decrease will increase at a higher rate for each additional 1.0 percent increase in the rate. The rate of decrease will vary for each potential revenue source by the responsiveness of consumers and businesses to the price changes resulting from the tax rate adjustment.

- **Expand Base of Existing Revenue Sources:** The third category of potential sources of state revenue that could be used to reduce property taxes involves expanding the base of existing revenue sources. A revenue source's base is defined as what type of economic transactions are either subject to a tax or trigger a liability for a defined amount of money. In this context, expanding the base of the tax simply means including more types of transactions into the potential source's base.

  The state revenue base is reduced by various exemptions, exclusions, discounts, deductions, special accounting methods, credits, and refunds. According to the CPA's fiscal year 2019 *Tax Exemptions and Tax Incidence* report, state revenue was reduced by an estimated $45.6 billion as a result of these reductions. Of the revenue lost, 99.1 percent was a result of Sales Tax and Franchise Tax exemptions. Broadening the base of state revenue, by eliminating or reducing exemptions, exclusions, discounts, deductions, special accounting methods, credits, and refunds, could be used as a strategy to fund M&O property tax relief. This analysis identifies potential opportunities to broaden the bases of various state taxes. Some of the exemptions identified by the CPA could not be reduced or eliminated feasibly, and those exemptions are excluded from this analysis. For example, Sales Tax exemptions for items that are taxed by another law, such as motor

[5] Fiscal Year 1991 was the last time the Gasoline tax rate was adjusted.

vehicles, insurance premiums, and motor fuels, are the largest group of exemptions. The cost of each exemption, exclusion, discount, deduction, special accounting method, credit, and refund depends on the rate of the tax and the amount of related economic activity. These values fluctuate based on changes in economic conditions. The amount of revenue that could be generated by any base expansion included in this analysis depends on the specific statutory language in any legislation, taxpayer compliance, and enforcement. Careful consultation with CPA staff on the statutory language is recommended to address potential issues related to definitions, client privilege, statutory or constitutional conflicts, and possible unintended consequences.

Figure 11 shows opportunities to expand the base of various state taxes to generate additional state revenue to fund property tax relief. For each potential base expansion, the figure shows information about the taxes to which the expansion applies, the policy justification for establishing the exemption, the year the exemption was enacted, and the tier of potential property tax relief that could be provided by repealing the exemption. The amount of additional revenue is based on the fiscal year 2022 estimated cost of the exemption in CPA's fiscal year 2019 *Tax Exemptions and Tax Incidence* report. Note that partial or phased base broadening also is an option, which could change the estimated tier. As an example, 20.0 percent, rather than all, of the value of information and data processing services are exempt from the sales tax.

This category includes an additional consideration for evaluation of potential sources of state revenue. The majority of exemptions, discounts, deductions, special accounting methods, credits, and refunds were intended to fulfill specific goals by policy makers. Examples include incentivizing a type of economic activity or behavior, correcting inequities in the tax system among different types of taxpayers, or changing the overall progressivity of the tax system. Repealing any of these policies by expanding the revenue base should be weighed against the benefit of reducing school district property taxes.

- **Establish New Revenue Sources:** The final category of potential sources of revenue that could be used to reduce school district property taxes are sources of state revenue used by other states that currently are not levied in Texas. As shown previously in **Figure 4**, Texas has a relatively unique tax system relative to other states and does not levy several taxes imposed by other states. Overall, sources in this category will be the most administratively expensive because they would require significant new resources appropriated to the CPA or, alternatively, the establishment of a new state agency to administer the new source of revenue, similarly to how a previous Legislature established the Texas Lottery Commission to administer the Texas Lottery. It also should be noted that, whereas most of the potential sources in the previous three categories could be implemented through statute, many of the options in this category would require a constitutional amendment.

  Figure 12 shows several potential sources for this category. A count of how many states currently use the potential source of revenue is included. The amount of revenue that other states collect through these revenue sources varies significantly. Therefore, the amount available for reducing Texas' school district property taxes would depend heavily

on the legislation implementing the potential source. LBB staff has calculated the amount of revenue raised by each state as a percentage of that state's personal income, and **Figure 12** shows that amount averaged across all the states that use the revenue source. To assign each potential source into an estimated Tier of school district property tax reduction, that average simply has been applied to Texas state personal income.

Finally, the options shown in **Figure 12** were limited to relatively large sources of revenue used by at least one other state. However, that data should not be considered an exhaustive list for this category. Multiple theoretical tax systems exist in public finance literature that have yet to be adopted formally by a state, but may warrant evaluation. Examples include an expenditure tax, a carbon tax, the flat tax, the head tax, and a variation of the flat tax known as the X tax. Information regarding any of these potential sources is available upon request.

Overview of School District Property Tax System

Many local taxing jurisdictions levy a local property tax, although the largest entity on a property tax bill typically is the local school district. The property tax revenue owed to a school district is determined by applying a tax rate to a calculation of the property's value. A school district's tax rate is made up of an M&O tax rate, which is levied to support the daily operations of the district and, if applicable, an interest and sinking (I&S) tax rate, which is used for payments on the debt that finances a district's facilities.

The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts. The district, in turn, uses these and other state funds, local property tax revenue, and federal funding to provide educational services. The FSP is a shared funding model, depending on contributions from state and local revenue sources to fund the level of entitlement generated by statutory formulas. FSP entitlement can be divided into three main categories: Tier I and Tier II, which together make up total M&O entitlement, and facilities funding. Each tier has its own tax rate, which, when combined, make up a district's total tax rate.

Tier I: A district's Tier I entitlement is determined through the summation of multiple allotments. Most allotments are calculated by multiplying a student count by a weight and the Basic Allotment, which is stated in the General Appropriations Act. Formulas within the FSP calculate the amount of local property tax revenue available to pay for a district's Tier I entitlement, and combine this amount with an allotment from the Available School Fund, a constitutionally dedicated fund. If this total is less than a district's Tier I entitlement, then state aid will make up the difference; if this total is more than a district's Tier I entitlement, then the district will be subject to wealth equalization provisions of the Texas Education Code through a process called recapture. The maximum Tier I tax rate authorized by law for fiscal year 2020 is $0.93 per $100 of property value. Beginning in fiscal year 2021, the maximum Tier I tax rate will be reduced further to $0.916 per $100 of property value.

Tier II: The second portion of M&O funding, Tier II enrichment funding, is provided through a guaranteed yield per penny of property tax levied in excess of the rate dedicated to meet the local share of Tier I. For the first eight pennies of tax effort levied at more than the Tier I level,

referred to as golden pennies, a district is guaranteed $98.56 per penny of tax effort per weighted student, an amount statutorily tied to the Basic Allotment. If a district does not generate that level of revenue per penny of tax effort, per weighted student, then state aid will be provided in an amount required to generate that level of total revenue. For the remaining pennies of tax effort, referred to as copper pennies, up to a total of $0.17 greater than the Tier I tax rate, the district is guaranteed $49.28 per penny of tax effort per weighted student. Districts that generate more than the guaranteed yield with property tax revenue alone are not subject to recapture for golden pennies, but they are subject to recapture for copper pennies.

Facilities: The FSP provides assistance for the repayment of locally authorized debt issued for the construction of public school facilities through two programs, the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA). FSP entitlement for both programs is funded through a combination of state aid and local property tax revenue, in a manner similar to funding for Tier II. Subject to certain limitations, both programs provide a guaranteed yield on local tax effort. IFA guarantees $35 per penny of tax effort, per student in average daily attendance (ADA), and EDA provides approximately $38 per penny of tax effort, per student in ADA. Therefore, if local I&S tax revenue does not meet these guaranteed yields, then state aid will make up the difference.

History of Property Tax Reduction in Texas Public Education

Over the last 15 years, the Legislature has sought to reduce local M&O property taxes. Overall, the methods that the Legislature utilized to reduce property taxes can be classified as property tax compression, which seeks to reduce the tax rate, or tax exemption, which limits or reduces the property value to which the tax rate is applied.

- **Compression:** Compression was introduced to the FSP in House Bill 1, Seventy-ninth Legislature, Third Called Session, 2006. The legislation reduced the minimum Tier I M&O (M&O) tax rate required to receive full entitlement by one-third. Before the legislation's implementation, most districts (545 of 1,028) levied an M&O tax rate of $1.50 per $100 of valuation. The legislation compressed this tax rate to $1.00 per $100 of valuation for districts at the maximum M&O tax rate, and by a proportional amount for districts at less than the maximum. The legislation also authorized the Legislature to further compress tax rates in the General Appropriations Act. To assist districts that may have been affected adversely by the property tax compression, the legislation established the Additional State Aid for Tax Reduction (ASATR), which was modified by the subsequent Legislature, to hold districts harmless as a result of any revenue lost through property tax compression. By the time ASATR was repealed in fiscal year 2017, the majority of districts no longer were receiving any ASATR state aid because adjustments to the school finance formulas, increasing property values, and increased funding had made the ASATR hold harmless unnecessary for most districts.

  Property tax rates were not compressed further until House Bill 3, Eighty-sixth Legislature, 2019. The legislation compressed Tier I tax rates by 7.0 percent to $0.93 per $100 of property value for fiscal year 2020. Beginning in fiscal year 2021, Tier I tax rates will be compressed further if the district's or statewide annual property value growth

exceeds 2.5 percent. For example, based on projections by CPA, district property values are expected to increase by 4.01 percent for fiscal year 2021 statewide. Therefore, each district's Tier I tax rate will be compressed further by at least 1.51 percent (4.01 percent minus 2.5 percent). To the extent that a district's property values exceed the statewide average, the Tier I tax rate will be compressed even further. For most districts, this compression will have the effect of decreasing the Tier I tax rate from $1.00 per $100 of district property valuation in fiscal year 2019 to $0.93 for fiscal year 2020 and $0.916 for fiscal year 2021.

House Bill 3 additionally compressed Tier II tax rates for copper pennies, which were subject to recapture and were the last $0.11 of tax effort per $100 of property valuation levied by school districts for those districts at the maximum tax rate before the legislation. Pursuant to House Bill 3, two copper pennies of tax effort were added to the district's golden pennies, which are not subject to recapture and provide a higher level of state aid, and the remaining nine copper pennies were compressed to 5.8 pennies. Therefore, pursuant to the legislation, a district that levied the maximum M&O tax rate of $1.17 would be compressed to $1.068 for fiscal year 2020, including $0.07 of tax compression for Tier I and $0.032 of tax compression for Tier II. For fiscal year 2021, this amount would be compressed further to at least $1.054.

- **Exemptions:** Another way that the state Legislature has reduced property taxes is by reducing taxable value, typically through an exemption. Exemptions either reduce partially or absolutely the taxable value of a property. Most exemptions are mandatory by state law; however, taxing districts may decide to implement optional exemptions by election. The Texas Tax Code, Chapter 11, provides several school district property tax exemptions for residents. Lowering the property value through an exemption is a method by which the Legislature has helped to lower the tax burden of specific groups. For example, the earliest exemptions were enacted in fiscal year 1979 and typically benefit veterans, surviving spouses of first responders and veterans killed in action, and the elderly.

  The most common exemption is the homestead exemption. Pursuant to the Texas Tax Code, Section 11.13(b), the homestead exemption requires school districts to reduce the taxable value of a property owner's primary residence. Taxpayers must apply for the exemption, and they must attest that the homestead is their primary residence and that they are not receiving this exemption for any other residential property. Before fiscal year 2015, the homestead exemption decreased the taxable value of a property owner's homestead by $15,000. Senate Joint Resolution 1, Eighty-fourth Legislature, 2015, which voters subsequently approved, increased the homestead exemption from $15,000 to $25,000. The Texas Tax Code, Section 11.13(n), authorizes school districts to decide locally if they want to further offer up to a 20.0 percent reduction in appraised value, with a minimum exemption amount of $5,000 of property valuation.

  Additional residential tax exemptions include a property value freeze on school district taxes for homeowners age 65 or older or disabled as defined in the federal Social Security, Title II, Old-Age, Survivors, and Disability Insurance program. The exemption

is available to the surviving spouse of a deceased homeowner if the spouse is at least age 55. Surviving spouses of veterans killed in action and surviving spouses of first responders killed in the line of duty are eligible to receive a total exemption from property taxes on their primary residences.

Exemptions also extend to nonresidential property. Certain properties that provide a public good and are not used for a profit are eligible for a total tax exemption. Such eligible properties include property used for charity, religious organizations, affordable housing land trusts, cemeteries, public property, and property used for private education. Additional exemptions exist for property used for agriculture and mining operations, exports from Texas, and other property used to make profit.

Figure 13 of the Attachment shows several examples of limiting school district property taxes, including methods to limit the property tax rate through property tax compression, and methods to limit the valuation on which the property taxes are based, through various exemptions and appraisal caps. **Figure 13** shows the methodology and examples of previously introduced legislation that sought to reduce property taxes through the identified methodology, along with the costs identified in the associated fiscal note. Please note that the estimated costs to the state shown in the figure are based primarily on past fiscal notes. Any future estimates may differ significantly from what is presented, due to the enactment of House Bill 3 and updated estimates of Foundation School Program budget drivers, including tax rates, property values, and student attendance.

We hope that the information contained in this memo will be useful to your offices when evaluating potential legislation regarding state revenue and school district property taxes. Please let us know if you have any further questions or need any additional information.

/jm

cc: Senator Jane Nelson
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Tom Currah
Nora Velasco
Representative Giovanni Capriglione
Representative Dustin Burrows
Representative Dan Huberty
Gavin Massingill
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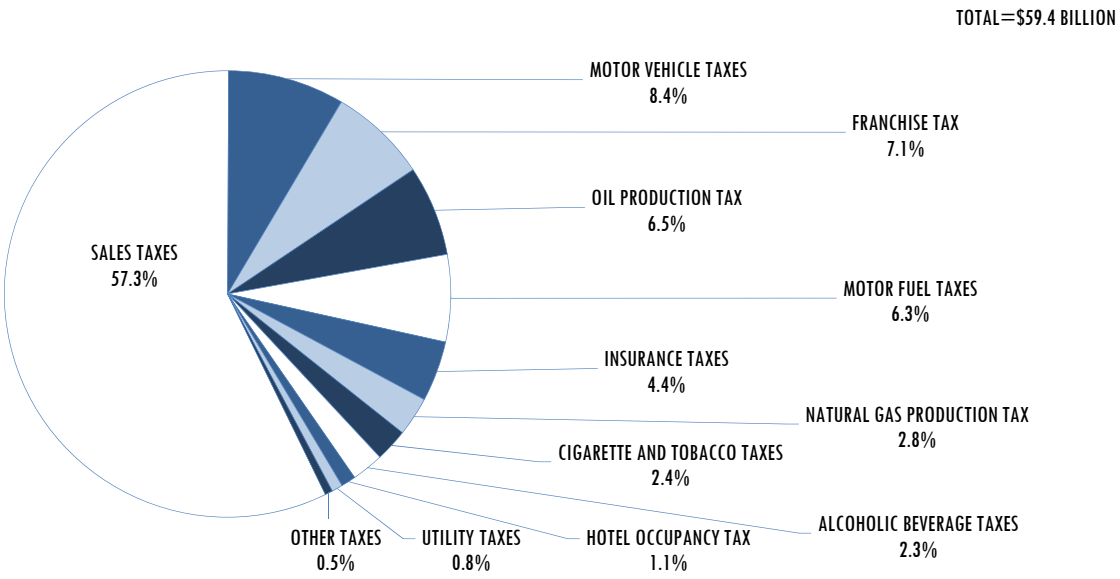
Central Files

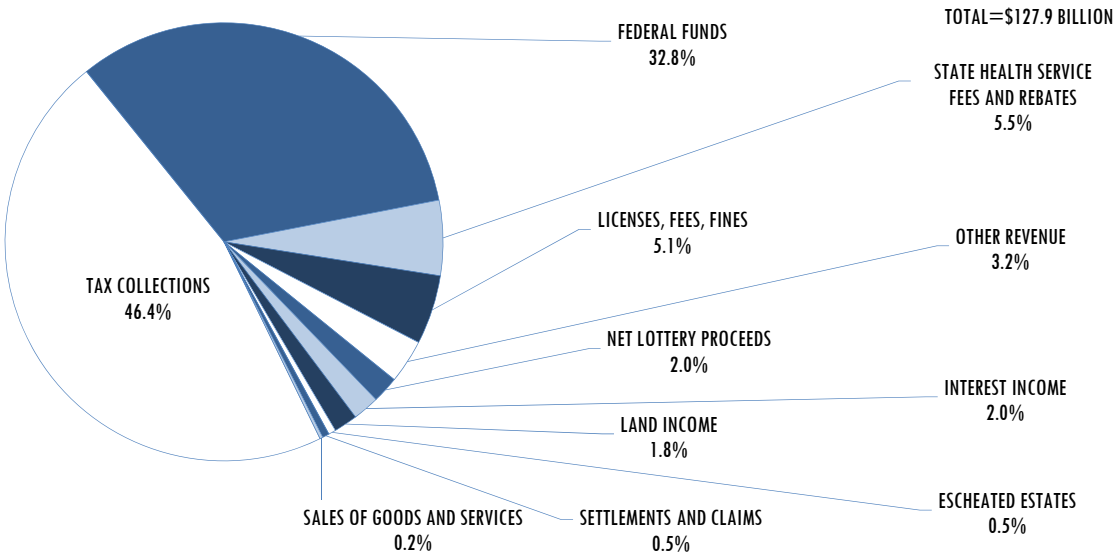
STUDY ON DISTRICT PROPERTY TAX COMPRESSION FIGURES

FIGURE 1
TEXAS STATE TAX COLLECTIONS IN ALL FUNDS
FISCAL YEAR 2019



SOURCE: Comptroller of Public Accounts.

FIGURE 2
TEXAS STATE REVENUE IN ALL FUNDS
FISCAL YEAR 2019



SOURCE: Comptroller of Public Accounts.

FIGURE 3
STATE RELIANCE ON MAJOR TAXES
STATE FISCAL YEAR 2019

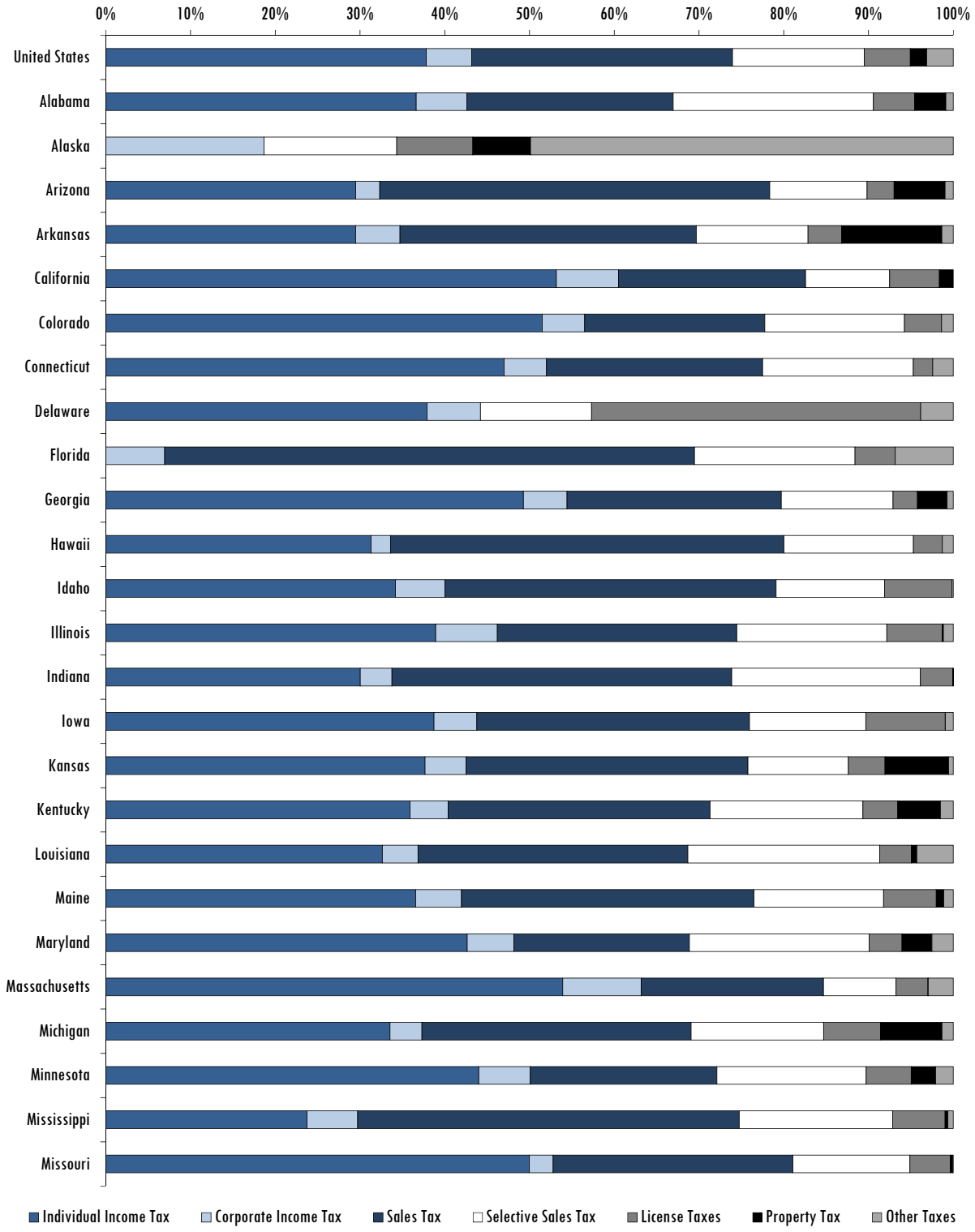
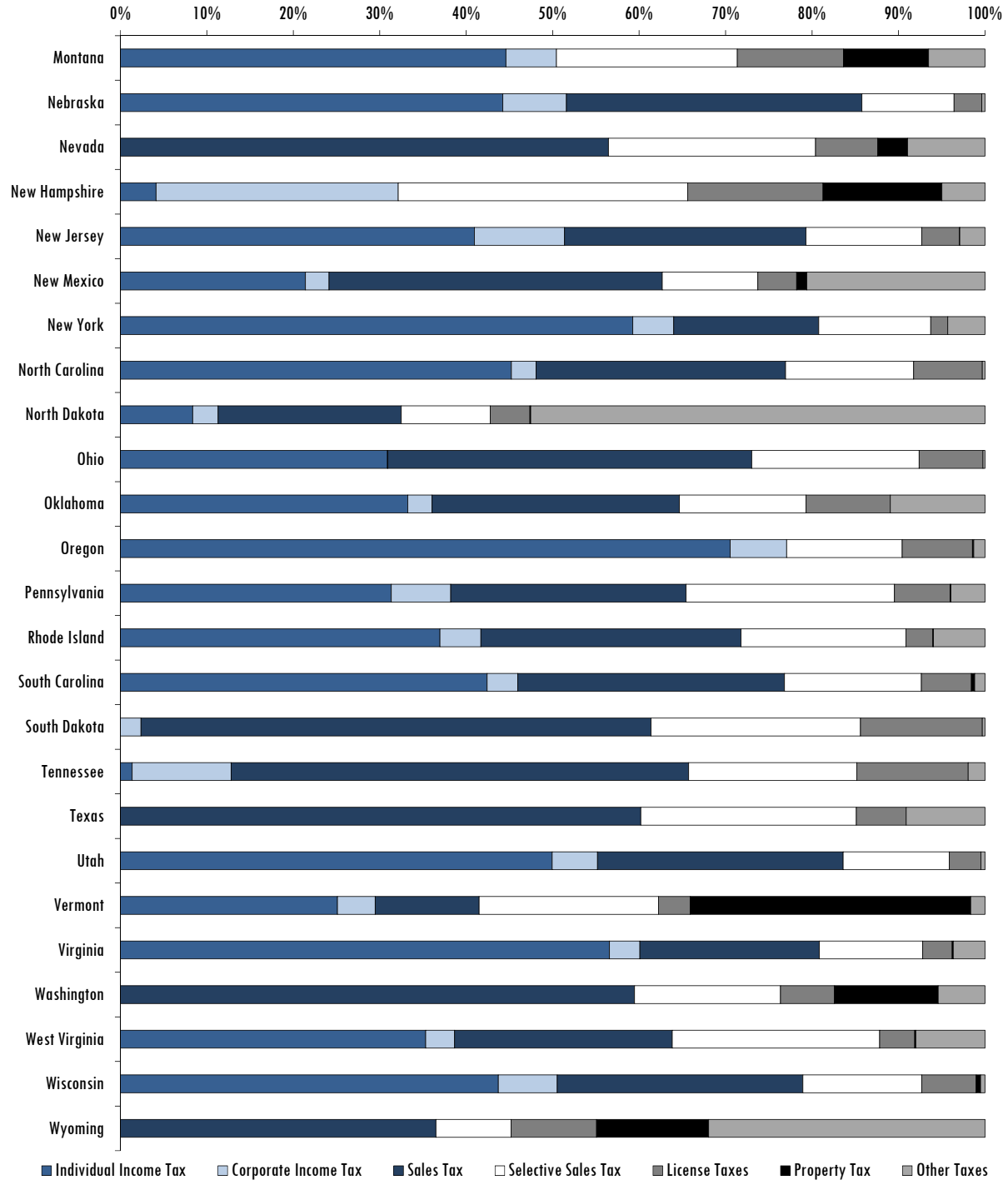
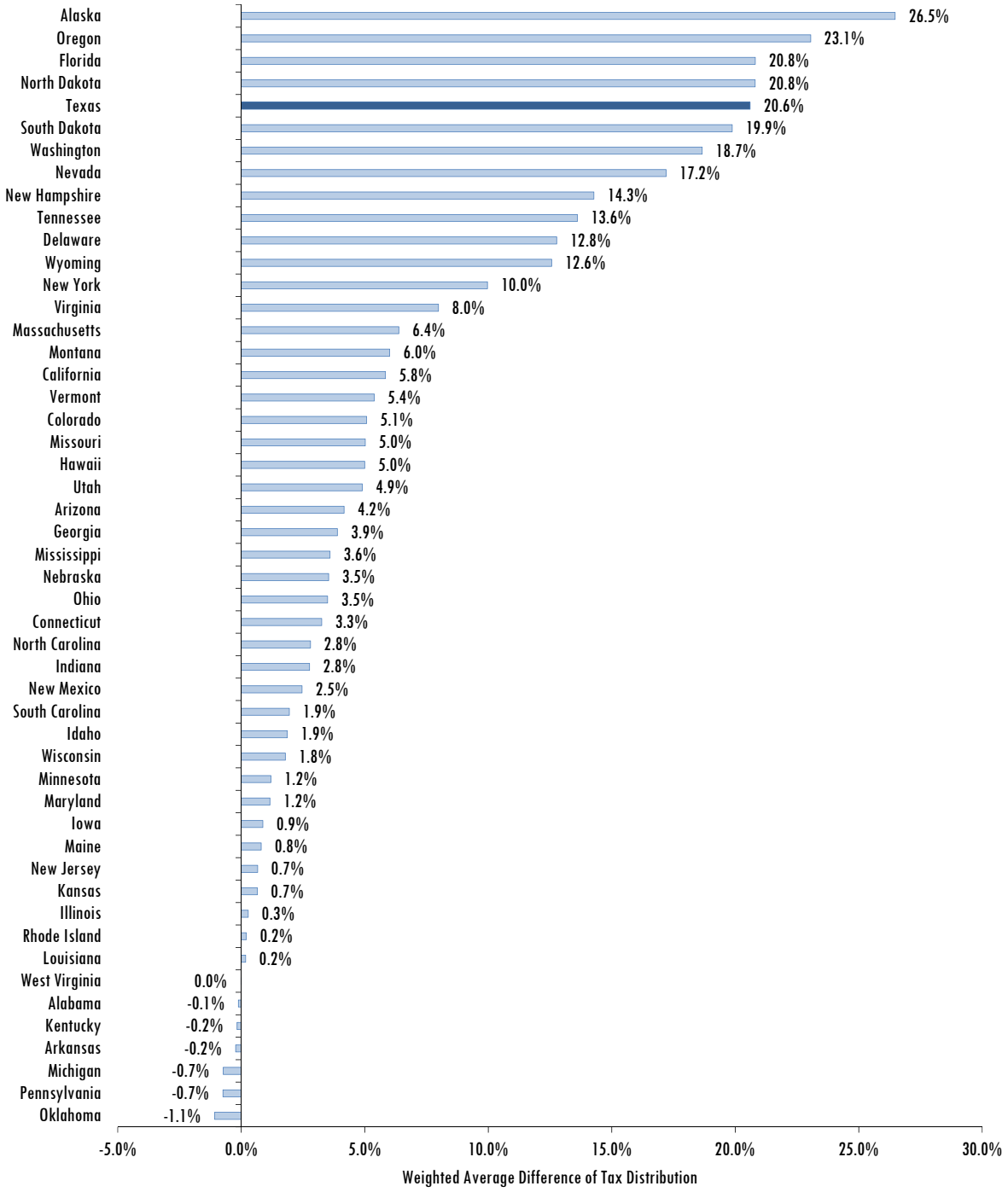


FIGURE 3 (CONTINUED)
STATE RELIANCE ON MAJOR TAXES
FISCAL YEAR 2019



SOURCES: National Conference of State Legislatures; U.S. Census Bureau.

FIGURE 4
HETEROGENEITY OF STATE TAX SYSTEMS
FISCAL YEAR 2019



SOURCES: National Conference of State Legislatures; U.S. Census Bureau.

FIGURE 5
ADMINISTRATIVE COSTS FOR PREVIOUS REVENUE PROPOSALS, AS OF FISCAL YEAR 2020

REVENUE INCREASE PROPOSAL	LEGISLATION	REVENUE CATEGORY	ONETIME ADMINISTRATIVE COSTS	RECURRING ADMINISTRATIVE COSTS	FULL-TIME-EQUIVALENT POSITIONS INCREASE	ADMINISTRATIVE COSTS PER CHANGE IN REVENUE (2)
Reallocate a portion of General Revenue Funds previously allocated to the Economic Stabilization Fund to the State Highway Fund	House Bill 1/House Joint Resolution 1, 83rd Legislature, Third Called Session, 2013 (1)	Dedicate Existing Revenue	$0	$0	0.0	0.00%
Transfer a portion of Limited Sales and Use and Motor Vehicle Sales Tax revenue greater than a certain amount to the State Highway Fund	Senate Joint Resolution 5, 84th Legislature, 2015 (1)	Dedicate Existing Revenue	$0	$0	0.0	0.00%
Increase the rate of the Limited Sales and Use Tax	House Joint Resolution 3, House Bill 4621, 86th Legislature, 2019	Rate Increase	$0	$0	0.0	0.00%
Increase the rate of Cigarette and Tobacco Products Tax	House Bill 5, 79th Legislature, Third Called Session, 2006 (1)	Rate Increase	$0	$0	0.0	0.00%
Require marketplace providers to collect and remit the limited sales and use tax on online orders	House Bill 1525, 86th Legislature, 2019 (1)	Expand Base	$0	$0	0.0	0.00%
Modify the methodology used to calculate the prepayment discount on the Limited Sales and Use Tax	House Bill 1729, 86th Legislature, 2019	Expand Base	$0	$0	0.0	0.00%

FIGURE 5 (CONTINUED)
ADMINISTRATIVE COSTS FOR PREVIOUS REVENUE PROPOSALS, AS OF FISCAL YEAR 2020

REVENUE INCREASE PROPOSAL	LEGISLATION	REVENUE CATEGORY	ONETIME ADMINISTRATIVE COSTS	RECURRING ADMINISTRATIVE COSTS	FULL-TIME-EQUIVALENT POSITIONS INCREASE	ADMINISTRATIVE COSTS PER CHANGE IN REVENUE (2)
Phase out the high-cost gas tax rate reduction for the Natural Gas Production Tax	Senate Bill 1417, 86th Legislature, 2019	Expand Base	$0	$0	0.0	0.00%
Change the Franchise Tax to Margin-based liability calculation	House Bill 3, 79th Legislature, Third Called Session, 2006 (1)	Rate Increase/ Expand Base	$0	$3,751,579	55.8	0.11%
Use standard presumptive value to calculate tax liability on used motor vehicles sales	House Bill 4, 79th Legislature, Third Called Session, 2006 (1)	Expand Base	$900,000	$0	0.0	2.13%
Sexually Oriented Business Customer Fee	House Bill 1751, 80th Legislature, 2007 (1)	New Revenue Source	$0	$0	0.0	0.00%
Personal Income Tax	House Bill 1735, 81st Legislature, Regular Session, 2009	New Revenue Source	$23,008,000	$44,797,000	664.0	1.58%
Apply a new sales tax on e-cigarettes and vapor products	House Bill 4013, 86th Legislature, 2019	New Revenue Source	$577,500	$362,000	6.0	4.84%
Authorize Casino Gambling	House Bill 3839, 84th Legislature, 2015	New Revenue Source	$0	$97,742,000	135.0	17.74%
Establish Texas Lottery	House Bill 54, 72nd Legislature, First Called Session, 1991 (1)	New Revenue Source	$20,000,000	$153,078,045	206.0	35.80%

NOTES:
(1) The legislation was enacted.
(2) Administrative costs are estimates from the Legislative Budget Board fiscal note for the first year of full enactment.
SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 6
VOLATILITY OF TEXAS REVENUE SOURCES
FISCAL YEARS 2000 TO 2019

SOURCE	COMPOUND ANNUAL GROWTH RATE (1)	STANDARD DEVIATION OF GROWTH RATE (1)
Natural Gas Production Tax	4.5%	49.5%
Oil Production Tax	11.8%	35.9%
Franchise Tax	3.6%	11.0%
Utility Taxes	2.9%	9.9%
Motor Vehicle Sales and Rental Taxes	3.0%	8.7%
Insurance Taxes	6.1%	8.0%
Hotel Occupancy Tax	5.1%	6.9%
Lottery Proceeds	3.3%	6.6%
Sales Taxes	4.5%	5.4%
School Property Taxes	5.1%	5.1%
Texas Gross State Product	**4.8%**	**3.9%**
Cigarette and Tobacco Taxes	-1.3%	3.8%
Alcoholic Beverage Taxes	5.0%	2.3%
Motor Fuels Taxes	1.7%	1.4%

NOTE: (1) Adjustments were made to account for major changes resulting from tax law changes and tax due dates.
SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 7
STATE TAX EFFICIENCY METRIC, PROJECTED AS OF FISCAL YEAR 2021

TEXAS REVENUE SOURCE	CHANGE IN TEXAS GROSS STATE PRODUCT (1)
Natural Gas Production Tax	-0.0058%
Oil Production Tax	-0.0060%
Cigarette and Tobacco Taxes	-0.0121%
Insurance Taxes	-0.0128%
Utility Taxes	-0.0149%
Alcoholic Beverage Taxes	-0.0151%
Hotel Occupancy Tax	-0.0151%
Motor Fuels Taxes	-0.0187%
Franchise Tax	-0.0192%
All State Taxes	**-0.0197%**
Sales Taxes	-0.0216%
Motor Vehicle Sales and Rental Taxes	-0.0245%

NOTE: (1) Forecasted change from increasing revenue source by enough to compress statewide school district maintenance and operation rates by $0.01 in fiscal year 2021.
SOURCE: Regional Economic Models Inc.

FIGURE 8
STATE TAX EQUITY METRICS, PROJECTED AS OF FISCAL YEAR 2021

TEXAS REVENUE SOURCE	INITIAL INCIDENCE CONSUMERS	TAX EXPORTED	SUITS INDEX
Oil Production Tax	0.0%	65.4%	-0.043
Natural Gas Production Tax	0.0%	65.7%	-0.061
Franchise Tax	0.0%	36.9%	-0.070
School Property Tax	47.1%	20.1%	-0.099
Hotel Occupancy Tax	53.4%	49.3%	-0.156
Motor Vehicle Sales and Rental Taxes	59.8%	17.1%	-0.198
Total State Taxes and Local Property Taxes	**55.1%**	**19.3%**	**-0.221**
Sales Taxes	57.6%	20.8%	-0.226
Alcoholic Beverage Taxes	100.0%	10.3%	-0.260
Insurance Taxes	0.0%	6.8%	-0.294
Motor Fuel Taxes	61.7%	13.8%	-0.317
Utility Taxes	0.0%	16.6%	-0.387
Cigarette and Tobacco Taxes	100.0%	2.6%	-0.496

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 9
OPTIONS TO DEDICATE EXISTING REVENUE STREAMS TO PROPERTY TAX RELIEF

REVENUE STREAM TO DEDICATE	CURRENT DEDICATIONS	2019 NONDEDICATED REVENUE	PERCENTAGE OF REVENUE ALREADY DEDICATED	AMOUNT OF PROPERTY TAX RELIEF
Limited Sales and Use Tax	State Highway Fund (SHF): Up to $2.5 billion annually of Limited Sales and Use tax	$31.3 billion	8.0%	Tier I
	SHF: Sales tax on motor lubricants			
	Texas Emissions Reduction Plan (TERP): Diesel equipment surcharge			
	General Revenue–Dedicated Account No. 9, Game, Fish, and Water Safety: 5.0% of Boat and Boat Motor Sales tax			
	Tax Reduction and Excellence in Education Fund: Sales tax from marketplace providers collected for marketplace sellers			
	Texas Parks and Wildlife Department (TPWD): 93.0% of sales tax on sporting goods			
	Texas Historical Commission: 7.0% of sales tax on sporting goods			
	Texas Racing Commission: Up to $50.0 million of sales tax on horse ownership-related items			
	General Revenue–Dedicated Account No. 5066, Rural Volunteer Fire Department Insurance: 2.0% of sales tax on fireworks			
Motor Vehicle Sales and Rental Taxes	SHF: 35.0% annually, greater than the first $5.0 billion coming into the Treasury	$5.0 billion	0.9%	Tier II
	Property Tax Relief Fund (PTRF): calculated off the vehicle's standard presumptive value			
	TERP: 2.5% surcharge on the retail sale or lease of certain diesel motor vehicles			
Motor Fuels	SHF: 75.0%, after payment of all refunds			

Taxes	and expenses of collection, for transportation	$12.0 million	99.7%	Tier III
	Available School Fund: 25.0%, after payment of all refunds and expenses of collection, for education			
Franchise Tax	PTRF: increased revenue from fiscal year 2006 tax changes for property tax relief	$3.3 billion	22.3%	Tier III
Oil Production Tax	Foundation School Fund (FSF): 25.0% to education	$0.4 billion	89.8%	Tier III
	Economic Stabilization Fund (ESF) and SHF: 75.0% in excess of fiscal year 1987 collections			
Insurance Taxes	FSF: 25.0% of insurance premium tax to education	$1.8 billion	29.5%	Tier III
	Texas Department of Insurance: Insurance maintenance taxes			
Cigarette and Tobacco Taxes	PTRF: increased revenue from fiscal year 2006 tax changes for property tax relief	$0.6 billion	60.3%	Tier III
Natural Gas Production Tax	FSF: 25.0% to education	$0.4 billion	73.6%	Tier III
	ESF and SHF: 75.0% in excess of fiscal year 1987 collections			
Alcoholic Beverages Taxes	None	$1.4 billion	0.0%	Tier III
Hotel Occupancy Tax	Economic Development and Tourism: 0.5% for advertising and other marketing activities for economic development and tourism	$0.6 billion	2.7%	Tier III
	General Land Office: 2.0% from hotels located in coastal counties for the benefit of coastal counties			
Utility Taxes	FSF: 25.0% of the gas, electric, and water utility tax to education	$0.4 billion	20.4%	Tier III
Other Taxes	FSF: 25.0% of the cement tax, coin-operated amusement machine tax, and the	$0.3 billion	16.3%	Tier III

	oil well service tax to education			
All Nondedicated Revenue	Numerous	$49.4 billion	61.4%	Tier I
Nondedicated Revenue Growth Above a Trigger (such as state population and inflation growth rate)	None	None	0.0%	Tier II

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 10
OPTIONS TO INCREASE THE RATE OF EXISTING REVENUE STREAMS FOR PROPERTY TAX RELIEF

RATE TO INCREASE	CURRENT RATE	YEAR LAST CHANGED	UNIT OR AD VALOREM RATE	AMOUNT OF PROPERTY TAX RELIEF	2019 COLLECTIONS
Sales and Use Tax	6.25%	1990	Ad Valorem	Tier I	$33,944,473,865
Boat and Boat Motor Sales and Use Tax	6.25%	1991	Ad Valorem	Tier III	$79,440,203
Motor Vehicle Sales and Use Tax	6.25%	1991	Ad Valorem	Tier II	$4,654,812,971
Tax on Motor Vehicle of New Resident	$90	1999	Unit	Tier III	
Tax on Even Exchange of Motor Vehicle	$5	1981	Unit	Tier III	
Tax on Gift of Motor Vehicle	$10	1981	Unit	Tier III	
Motor Vehicle Rental Tax, 30 Days or Less	10.0%	1991	Ad Valorem	Tier III	$329,492,069
Motor Vehicle Rental Tax, More Than 30 Days	6.25%	1991			
Manufactured Housing Sales and Use Tax	3.25%	1983	Ad Valorem	Tier III	$26,286,778
Franchise Tax	0.75%	2015	Ad Valorem	Tier II	$4,217,868,701
Franchise Tax – Retail/Wholesale Trade	0.375%	2015			
Franchise Tax – EZ Computation (1)	0.331%	2015			
Gasoline Tax	$0.20 per gallon	1991	Unit	Tier II	$2,789,006,176
Diesel Tax	$0.20 per gallon	1991	Unit	Tier III	$948,047,468
Liquefied and Compressed Natural Gas Tax	$0.15 per gasoline or diesel gallon equivalent	2013	Unit	Tier III	$5,950,683
Oil Production Tax	4.6%	1951	Ad Valorem	Tier II	$3,886,823,879

Oil Production Tax – Enhanced Oil Recovery	2.3%	1989			
Natural Gas Production Tax	7.5%	1969	Ad Valorem	Tier III	$1,685,680,675
Insurance Premium Tax – Property and Casualty	1.6%	1999	Ad Valorem	Tier II	$2,445,695,824
Insurance Premium Tax – Life, Health, and Accident, $450,000 or Less	0.875%	1995			
Insurance Premium Tax – Life, Health, and Accident, More Than $450,000	1.75%	1995			
Insurance Premium Tax – Title	1.35%	1999			
Insurance Premium Tax – Captive	0.5%	2013			
Insurance Premium Tax – Surplus Line	4.85%	1989			
Mixed Beverage Gross Receipts Tax	6.7%	2013	Ad Valorem	Tier III	$511,504,794
Mixed Beverage Sales Tax	8.25%	2013	Ad Valorem	Tier III	$624,353,110
Liquor Tax	$2.40 per gallon	1984	Unit	Tier III	$99,258,974
Wine Tax –14.0% or Less Alcohol Content	$0.204 per gallon	1984	Unit	Tier III	$16,682,935
Wine Tax– More Than 14.0% Alcohol Content	$0.408 per gallon	1984			
Wine Tax – Sparkling Wine	$0.516 per gallon	1984			
Ale and Malt Liquor Tax	$0.198 per gallon	1984	Unit	Tier III	$14,857,760
Beer Tax	$6 per 31 gallons	1984	Unit	Tier III	$102,744,698
Cigarette Tax – Weight 3.0 Lbs. or Less Per Thousand	$70.5 per thousand	2006	Unit	Tier III	$1,183,181,552

Cigarette Tax – Weight More Than 3.0 Lbs. Per Thousand	$72.60 per thousand	2006			
Cigar Tax – Weight 3.0 Lbs. or Less Per Thousand	$0.01 per 10	2006	Unit	Tier III	$227,209,403
Cigar Tax – Weight More Than 3.0 Lbs. Per Thousand and Price $0.033 or Less Each	$7.50 per thousand	2006			
Cigar Tax – Weight More Than 3.0 Lbs. Per Thousand and Price More Than $0.033 Each, No Substantial Nontobacco Ingredients	$11 per thousand	2006			
Cigar Tax – Weight More Than 3.0 Lbs. Per Thousand and Price More Than $0.033 Each, With Substantial Nontobacco Ingredients	$15 per thousand	2006			
Tobacco Products (Other than Cigar) Tax	$1.22 per ounce	2009			
Hotel Occupancy Tax	6.0%	1987	Ad Valorem	Tier III	$636,110,128
Public Utility Gross Receipts Assessment	1/6th of 1.0%	1975	Ad Valorem	Tier III	$49,665,966
Gas Utility Pipeline Tax	0.5%	1989	Ad Valorem	Tier III	$31,284,553
Miscellaneous Gross Receipts Tax – City Population of 1,000 to Less Than 2,500	0.581%	1959	Ad Valorem	Tier III	$390,411,047
Miscellaneous Gross Receipts Tax – City Population of 2,500 to Less Than 10,000	1.07%	1959			
Miscellaneous Gross Receipts Tax – City Population of 10,000 or More	1.997%	1959			

Oil Well Service Tax	2.42%	1951	Ad Valorem	Tier III	$193,227,433
Cement Production Tax	$0.0275 per 100 Lbs.	1951	Unit	Tier III	$9,716,366
Employment and Investment Training Assessment	0.1%	2005	Ad Valorem	Tier III	$113,152,526
Coin-Operated Amusement Machine Tax	$60 per year	1991	Unit	Tier III	$9,459,574
Combative Sports Admissions Tax	3.0%	1933	Ad Valorem	Tier III	$956,025

NOTE: (1) The Texas Comptroller of Public Accounts provides a franchise tax EZ Computation, an alternative calculation, for entities that have total revenue of less than $20.0 million.
SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 11
OPTIONS TO EXPAND THE BASE OF EXISTING REVENUE STREAMS TO FUND PROPERTY TAX RELIEF

BASE EXPANSION	TAXES AFFECTED	POLICY JUSTIFICATION FOR EXEMPTION, EXCLUSION, DEDUCTION, OR SPECIAL ACCOUNTING	FISCAL YEAR ENACTED	AMOUNT OF PROPERTY TAX RELIEF
Repeal Franchise Tax Credit and Sales Tax Exemption for Research and Development Activities	Franchise, Limited Sales and Use	Incentivize private sector spending on research and development	2013	Tier II
Repeal Tax Collection Allowances	Limited Sales and Use, Motor Vehicle Sales, Cigarette, Hotel Occupancy, Boat Sales, Motor Fuel, Liquor, Ale and Malt Liquor, and Malt Beverage	Encourage filing taxes in a timely manner and offset the costs of collecting and remitting taxes	1935	Tier II
Repeal Exemption of Vented and Flared Gas	Gas Production	The Gas Production Tax is based on the producer's gross receipts from the sale of the gas. Gas that is vented and flared is not sold.	1941	Tier III
Repeal the Tax Reduction for High-cost Gas	Gas Production	Encourage the production of gas that is difficult to reach or expensive to produce	1989	Tier II
Repeal the Tax Reduction for Oil Produced from an Enhanced Recovery Project	Oil Production	Encourage the production of oil that is difficult to reach or expensive to produce	1989	Tier III
Repeal Off-highway Use Refund	Motor Fuels Tax	The gasoline is consumed for a reason other than propelling a vehicle on Texas roads	1941	Tier III
Repeal the Trade-in Allowance Exemption of the Motor Vehicle Sales Tax	Motor Vehicle Sales	The Motor Vehicle Sales Tax is based on the amount paid for the vehicle. The value of a trade-in vehicle reduces the tax base.	1963	Tier II
Repeal the Interstate Vehicle Exemption of the Motor Vehicle Sales Tax	Motor Vehicle Sales	Interstate vehicles are operated in multiple states in accordance with the International Registration Plan.	1977	Tier III
Repeal the No Tax Due Threshold for the Franchise Tax	Franchise	Exempt small businesses from the tax when the Franchise Tax base was expanded in 1991.	1991	Tier II
Repeal the Optional $1.0 Million Subtraction for the Franchise Tax	Franchise	Reduce the tax liability of small businesses	2013	Tier III

Repeal the Retail/Wholesale Rate and the EZ Rate for the Franchise Tax	Franchise	Retail/Wholesale Rate: Reduce tax liability for an industry that typically has relatively low profit margins; EZ Rate: Reduce tax compliance costs for small taxpayers	2006	Tier II
Repeal the Temporary Credit on Taxable Margin for the Franchise Tax	Franchise	Entities were eligible for credits through the previous franchise tax if those credits carried forward after reforms in fiscal year 2006	2006	Tier III
Repeal the Credit for Rehabilitation of Certified Historic Structures for the Franchise Tax	Franchise	Encourage the rehabilitation of privately owned historic structures	2013	Tier III
Repeal Sales Tax Holidays	Limited Sales and Use	Reduce the regressivity of the Texas sales tax.	1999	Tier III
Repeal Sales Tax Exemptions for Information and Data Processing Services and Data Centers	Limited Sales and Use	Encourage Texas-based data processing services	1999	Tier III
Repeal Media-related Sales Tax Exemptions	Limited Sales and Use	The exempt items are used to make commercial media products	1999	Tier III
Repeal Sales Tax Exemption for Water	Limited Sales and Use	Reduce the regressivity of the Texas sales tax	1961	Tier II
Repeal Sales Tax Exemption for Containers	Limited Sales and Use	Reduce storage costs	1961	Tier III
Repeal Sales Tax Exemption for Aircraft, Ships, and Rolling Stock	Limited Sales and Use	These items are exempt only if they are used for specified purposes, typically commercial or agricultural purposes.	1961	Tier III
Repeal Sales Tax Exemption for Gas and Electricity	Limited Sales and Use	Reduce the regressivity of the Texas sales tax	1961	Tier I
Repeal Sales Tax Exemption for Agricultural and Timber Items	Limited Sales and Use	The exempt items are used in the production of commercial agricultural and timber products.	1961	Tier II
Repeal Sales Tax Exemption for Food	Limited Sales and Use	Reduce the regressivity of the Texas sales tax.	1961	Tier I
Repeal Sales Tax Exemption for Health Care Supplies	Limited Sales and Use	Reduce the regressivity of the Texas sales tax	1961	Tier II

Repeal Sales Tax Exemption for Property Used in Manufacturing	Limited Sales and Use	Avoid double taxation. The exempt items are used in the commercial production of goods.	1961	Tier I
Repeal Sales Tax Exemption for Printed Materials	Limited Sales and Use	Exemption originally applied only to religious materials but was expanded when the original exemption was found unconstitutional	1961	Tier III
Add Currently Excluded Repair, Remodeling, Maintenance, and Restoration Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Construction Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Automotive Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Barbering and Cosmetology Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Debt Management Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Funeral Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Hunting or Fishing Guide Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Accounting and Audit Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Interior Design or Interior Decorating Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Massage Therapy Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Packing Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Personal Instruction Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III

Add Veterinary Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Engineering Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Legal Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Real Estate Brokerage and Agency Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Advertising Media Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier I
Add Architectural Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Commercial Research, Development, and Testing Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Employment Agency Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Financial Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Management, Consulting, or Public Relations Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III
Add Temporary Labor Supply Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Transportation Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier II
Add Healthcare Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier I
Add Data Storage Services to Taxable Services	Limited Sales and Use	Never included in the Texas sales tax base	N/A	Tier III

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

FIGURE 12
OPTIONS TO ESTABLISH NEW REVENUE SOURCES USED IN OTHER STATES FOR PROPERTY TAX RELIEF

SOURCE	STATES USING REVENUE SOURCE (1)	AVERAGE PERCENTAGE OF STATE PERSONAL INCOME RAISED	AMOUNT OF PROPERTY TAX RELIEF
Personal Income Tax	43	2.37%	Tier I
Value Added Tax (2)	1	0.38%	Tier I
Corporate Income Tax	46	0.34%	Tier I
Commercial Casino/Racino Tax	25	0.17%	Tier I
Estate/Gift Tax	16	0.07%	Tier II
Documentary/Real Estate Transfer Tax	34	0.07%	Tier II
Marijuana Tax	7	0.05%	Tier II

NOTES:
(1) As of state fiscal year 2019.
(2) New Hampshire imposes a Business Enterprise Tax, which is not explicitly a Value Added Tax but operates similarly to an income-based additive-method Value Added Tax.

SOURCES: Legislative Budget Board; Bureau of Economic Analysis; state tax agencies.

FIGURE 13
STRATEGIES TO REDUCE SCHOOL DISTRICT MAINTENANCE AND OPERATIONS TAXES

STRATEGY	EXAMPLE METHOD	DESCRIPTION	COST TO STATE	EXAMPLE OF LEGISLATION
Limit School District Tax Rate	Compression	Reduce the Maintenance and Operations Tier 1 tax rate of school districts by increasing the state maximum compressed rate and/or limiting the maximum nominal M&O tax rate that can be levied by a district. The state maximum nominal M&O rate decreased from $1.17 per $100 of property valuation in fiscal year 2019 to $1.068 in fiscal year 2020.	To reduce the state maximum compressed rate by $0.01 per $100 of property valuation, estimated to result in a cost to the state of approximately $250 million per fiscal year for the 2022–23 biennium.	House Bill 1, 79th Legislature, Third Called Session, 2006 House Bill 3, 86th Legislature, 2019
Limit School District Property Valuation	Homestead Exemption Increase	Reduce the property valuation used to calculate school district property taxes due to a school district by increasing exemptions, such as an increase in the homestead exemption. The homestead exemption is currently $25,000.	Senate Bill 5, 86th Legislature, 2019, Introduced, proposed a homestead exemption increase of $10,000 to a total exemption of $35,000, at an estimated cost of $733.3 million in fiscal year 2021.	Senate Bill 5, 86th Legislature, 2019, Introduced Senate Joint Resolution 1, 84th Legislature, 2015
Increase Business Personal Property Exemption	Business Exemption Increase	Increase the amount exempted on taxable property held or used for the production of income from the current exemption of $500.	Senate Bill 1006, 86th Legislature, 2019, Introduced, increased the exemption of tangible income-producing personal property from property with a value of less than $500 to $2,500. The cost to the state for the 2022–23 biennium was estimated at approximately $5.25 million.	Senate Bill 1006, 86th Legislature, 2019, Introduced
Exempt Business Inventories	Business Exemption Increase	Exempt certain types of business property from ad valorem taxation.	Senate Bill 1143, 86th Legislature, 2019, Introduced, proposed an exemption from ad valorem taxation on all tangible personal property held for sale at retail and a franchise tax credit based on ad valorem taxes paid on such property. The fiscal note on this bill estimated	Senate Bill 1143, 86th Legislature, 2019, Introduced Senate Bill 1619, 83rd Legislature, Regular Session, 2013

			the cost to the state at approximately $511.0 million.	
Expand Appraisal Cap to Real Property	Business Exemption Increase	Currently, only residence homesteads have a limit to the appraised value increases. Expand this limitation to all real property.	Senate Bill 1086, 86th Legislature, 2019, Introduced, proposed expanding the limitation of appraised value to all real property and decreasing the appraisal rate from 10.0% to 5.0%. The cost to the state was estimated at $3.4 billion for the 2022–23 biennium.	Senate Bill 1086, 86th Legislature, 2019, Introduced
Lower Residential Appraisal Cap	Homestead Exemption Increase	Reduce the potential increase in the appraised value of a property used to calculate school district property taxes due to a school district from the current appraisal cap of 10.0%.	House Bill 383, 86th Legislature, 2019, Introduced, proposed a reduction in the appraised value of a residence homestead (appraisal cap) from 10.0% to 5.0%. The cost to the state was estimated at $368.5 million for the 2022–23 biennium.	House Bill 383, 86th Legislature, 2019, Introduced Senate Bill 657, 86th Legislature, 2019, Introduced

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.